

Philippines: 3Q GDP growth quickens to 6.2%

Economic activity picked up in the third quarter with steady consumption and resurgent government spending lifting growth above 6%



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6.2% 3Q GDP growth

Higher than expected

PHL 3Q GDP growth quickens to 6.2%

Snapping two quarters of sub-6% expansion, the Philippines managed to churn out growth of 6.2% to keep the bid for 6% full year growth alive. Besting market consensus for a 6.0% gain, growth was boosted by heavyweight household consumption which was up 5.9% as inflation dipped below 1%. Also contributing to growth was the resurgence of government spending which jumped to 9.6% while investment remained an overall drag to economic growth, posting a -2.1% print for

the quarter.

The good

Household consumption, which accounts for roughly 57.4% of economic activity, was the main driver for the better than expected 3Q result. Growing by 5.9%, the sector delivered 3.3 percentage points to the overall 6.2% expansion with purchasing power lifted by the slide in inflation. Government spending (+9.6%) continued to recover as the 2020 budget bill finally came online, mirroring the 39% jump in overall government expenditure growth posted in September. Spending by the government on operating expenses contributed roughly 0.89 percentage points to the total and we can expect this pace to accelerate going into 4Q with the administration pledging even faster spending to chase the -3.0% deficit-to-GDP target for the year.

The not so good

Capital formation was negative for the second straight quarter, weighed down mainly by the contraction in investment for durable equipment (-9.1%). Construction activity was the bright spot for the sector, posting a strong 17.3% expansion but ultimately was unable to lift the segment into positive territory. Capital formation accounts for roughly 25% of the economy and as a whole, it weighed down on growth by 0.56 of a percentage point. With the recent policy easing from the central bank, Economic Minister, Pernia, shared that growth should get a boost, in particular with investment activity to continue to rebound and lead to purchases of durable equipment in 4Q. Meanwhile, the trade sector managed a flat performance in 3Q as exports appeared to struggle, weighed down by the US-China trade war. Meanwhile, imports of capital goods and raw materials were disappointing with the poor performance tagged to the budget delay. Going forward, we can expect the trade gap to widen but this may actually be a welcome sign should imports of machinery and durable equipment return to help drive the investment engines of the Philippine growth story.

Philippines chases full year 6% growth

With the 6.2% growth print in 3Q, we expect the Philippines to continue to chase full-year growth of 6% to keep the string of strong growth alive (streak of 7 straight years). Household consumption may continue to deliver, given that inflation in the fourth quarter remains largely benign. Meanwhile, if recent trends shown in 3Q data foretell the pace of spending in 4Q, government expenditure on both operating costs as well as public construction should surge to close out the year. In order to complete the growth picture however, the PHL will need to see a positive contribution from the investment picture, which has languished in contraction for two straight quarters. Monetary easing and improving investor sentiment will likely lift capital formation to close out the year with an accelerated pace of capital formation growth expected in 2020, with recent Bangko Sentral ng Pilipinas (BSP) rate cuts feeding into the economy. Pernia estimates that the PHL will need to achieve 6.7% growth in 4Q to get full-year growth above 6% and we believe this remains highly achievable if the economy finally fires on all cylinders once again. The better-than-expected growth will, however limit pressure on the BSP to cut rates again in early in 1Q 2020. But given the dovish rhetoric from BSP Governor Diokno, we continue to pencil in further easing from the BSP in 2020.